

## Message Text

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ACTION EUR-12

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INR-10 L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15  
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NRC-05 COME-00 STR-07 /123 W  
-----112152 280220Z /64

R 272136Z JUN 78  
FM AMEMBASSY OTTAWA  
TO SECSTATE WASHDC 8214  
INFO AMEMBASSY TOKYO  
AMCONSUL HONG KONG  
USLO PEKING  
AMEMBASSY SEOUL  
AMEMBASSY MANILA  
AMEMBASSY JAKARTA  
ALL CANADIAN CONSULATES (BY POUCH)

C O N F I D E N T I L SECTION 1 OF 3 OTTAWA 03752

E.O. 11652: GDS  
TAGS: PFOR, ECON, JA, CA  
SUBJECT: CANADA-JAPAN RELATIONS

1. SUMMARY. SINCE 1975 STUDY WHICH SHOWED GOJ CONTINUED TO VIEW CANADA AS "ROCKS AND LOGS," CANADIAN GOVERNMENT HAS MADE CONCERTED EFFORT TO INCREASE EXPORTS OF FINISHED PRODUCTS, ATTRACT JAPANESE INVESTMENT, AND PROMOTE BETTER UNDERSTANDING THROUGH EXCHANGES. TO DATE, ONLY THE LAST APPEARS TO HAVE BEEN SUCCESSFUL, BUT GOC OFFICIALS ARE NOT DISCOURAGED. THEY VIEW UPGRADING OF RELATIONSHIP AS FAIRLY LONG-TERM PROPOSITION AND HOPE FOR REASONABLE PAYOFF IN THE FUTURE. END OF SUMMARY.

2. GENERAL: CONTEMPORARY CANADA-JAPAN RELATIONS DATE FROM CANADA'S ADOPTION, IN 1972, OF ITS "THIRD OPTION" POLICY DESIGNED TO LESSEN CANADIAN RELIANCE--ECONOMIC, CONFIDENTIAL

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POLITICAL, AND CULTURAL ON THE U.S. BY BUILDING TIES WITH OTHER COUNTRIES AND AREAS. BY ITS AREA PREDOMINANCE, JAPAN WAS A NATURAL TARGET OF CANADIAN "THIRD OPTION" EMPHASIS. AS CANADA, HOWEVER, LEARNED IN ASIA AS ELSEWHERE A "THIRD OPTION" WISH IS ONE THING, RESULTS QUITE ANOTHER. NOWHERE WAS THIS MORE TRUE THAN IN ITS RELATIONS WITH JAPAN. A CANADIAN GOVERNMENT STUDY, CONDUCTED IN

1974-5, CONCLUDED THAT THE JAPANESE CONTINUED TO LOOK ON CANADA AS LITTLE MORE THAN "ROCKS AND LOGS," IN THE WORDS OF A CANADIAN DIPLOMAT. AS A RESULT OF THAT STUDY, THE CANADIANS LAUNCHED AN INTENSIVE CAMPAIGN, WHICH CONTINUES TO THE PRESENT, TO PROVIDE SUBSTANCE IN PLACE OF "THIRD OPTION" RHETORIC. ACCORDINGLY, CANADA HAS BEEFED UP ITS EMBASSY PRESENCE IN TOKYO, ADDING NUMBERS TO THE EMBASSY POLITICAL, CULTURAL, TRADE, AND INFORMATION SECTIONS AND UPGRADING THE QUALITY OF ITS STAFF. FURTHER, THE GOC HAS PROMOTED A WIDE RANGE OF EXCHANGES WITH JAPAN. A CANADA-JAPAN BUSINESS COOPERATION COUNCIL WAS FORMED AND HELD ITS FIRST MEETING IN MAY, 1978 IN TOKYO. IT WILL MEET IN TORONTO NEXT YEAR. REPRESENTATIVES OF THE SCIENCE AND TECHNOLOGY SECTORS OF EACH COUNTRY GATHER EVERY TWO YEARS, LAST MEETING IN JUNE OF 1978. PARLIAMENTARY EXCHANGES ARE CONDUCTED ON A CONTINUING BASIS, MOST RECENTLY WITH A DIET DELEGATION IN OTTAWA THIS MONTH. GOVERNMENTAL POLICY PLANNING EXPERTS MEET ANNUALLY AS DOES THE CANADA-JAPAN JOINT ECONOMIC COMMITTEE. MUCH OF THIS IS THE RESULT OF THE 1976 ECONOMIC AND CULTURAL AGREEMENTS SIGNED DURING PM TRUDEAU'S VISIT TO JAPAN. TRUDEAU'S VISIT, MOREOVER, WAS THE FIRST IN WHAT HAS BECOME A STEADY STREAM OF VISITING MINISTERS, MOSTLY CANADIAN. SINCE BEGINNING OF 1975, THERE HAVE BEEN TEN CANADIAN MINISTERIAL VISITS TO JAPAN. JAPANESE HAVE RECIPROCATED WITH THREE VISITS.

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3. DESPITE THE IMPRESSIVE SHOW, EXTAFF OFFICIALS ARE QUICK TO ADMIT THAT CANADA'S BLITZ, "GETTING TO KNOW YOU" CAMPAIGN HAS RESULTED IN LITTLE TANGIBLE BENEFIT TO CANADA. AS IS INDICATED BELOW, CANADA REMAINS BY AND LARGE A SOURCE OF "ROCKS AND LOGS" FOR THE JAPANESE AND, EVEN WITH THIS, THE TRADE LEVEL HAS REMAINED MORE OR LESS STATIC. FURTHER, SOUGHT-AFTER JAPANESE INVESTMENT IN CANADA HAS YET TO BE LANDED IN ANY SIGNIFICANT QUANTITY. GENERALLY BAD ECONOMIC TIMES WORLDWIDE MAY EXPLAIN AWAY SOME OF THIS LACK OF PROGRESS. HOWEVER, DATA ALSO REFLECTS, TO A DEGREE, FAILURE OF JAPANESE TO RESPOND TO CANADIAN SALES PITCH.

4. SAME EXTAFF OFFICIALS ARE NOT, HOWEVER, DISCOURAGED. THEY POINT TO A FAR MORE CANDID EXCHANGE OF POLITICAL VIEWS IN OTTAWA, TOKYO AND ELSEWHERE AND ASSERT THAT THE JAPANESE ARE ACTIVELY INTERESTED IN GOC VIEWS ON SUCH TOPICS AS SOUTHERN AFRICA AND NATO. FOR THEIR PART, THE CANADIANS FIND THE JAPANESE MORE FORTHCOMING IN AREAS OF SPECIAL JAPANESE EXPERTISE. CANADIAN OFFICIALS POINT OUT, MOREOVER, THAT THE EXPOSURE GAME IS A SLOW ONE, PARTICULARLY WITH TWO COUNTRIES AS DIFFERENT AS JAPAN AND CANADA, AND THEY LOOK TO THE FUTURE FOR DIVIDENDS FROM THEIR STEPPED-

UP ATTENTION TO JAPAN. WHETHER THIS PROVES TO BE TRUE OR NOT REMAINS TO BE SEEN, OF COURSE, BUT, AT THE LEAST, CANADA CANNOT BE FAULTED FOR A LACK OF EFFORT.

5. ECONOMIC RELATIONS: TRADE: NEXT TO THE U.S., JAPAN IS CANADA'S LARGEST TRADING PARTNER. THE RELATIVE IMPORTANCE OF JAPAN TO CANADA--AS MEASURED BY JAPANESE SHARES OF CANADIAN EXPORTS/IMPORTS--HAS REMAINED UNCHANGED IN THE 1970S. MERCHANDISE EXPORTS TO JAPAN TOTALLED C\$2.5 BILLION IN 1977, OR 8 PERCENT OF TOTAL CANADIAN EXPORTS AND VIRTUALLY UNCHANGED FROM 7 PERCENT SHARE ACCOUNTED FOR BY JAPAN IN 1971. IMPORTS FROM JAPAN, AT C\$1.8 BILLION

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C O N F I D E N T I A L SECTION 02 OF 03 OTTAWA 03752

LAST YEAR, WERE SIX PERCENT OF TOTAL IMPORTS, COMPARED WITH THE SEVEN PERCENT JAPANESE SHARE IN 1971. CANADA HAS RUN A TRADE SURPLUS WITH JAPAN IN ALL BUT ONE YEAR SINCE 1971.

6. THE PATTERN OF CANADIAN/JAPANESE TRADE HAS ALSO BEEN STABLE. IT IS A CLASSIC "ROCKS AND LOGS" CASE. IN 1977, 77 PERCENT OF CANADIAN EXPORTS TO JAPAN WERE FOOD AND CRUDE MATERIALS, WHILE ONLY TWO PERCENT WERE FINISHED MANUFACTURES. THE REMAINDER WAS SEMI-FINISHED GOODS. THESE PERCENTAGES WERE 75 PERCENT AND THREE PERCENT RESPECTIVELY IN 1971. IN CONTRAST, 78 PERCENT OF CANADIAN IMPORTS FROM JAPAN IN 1977 WERE FINISHED MANUFACTURES;

COMPARED WITH 73 PERCENT IN 1973. THUS, THE "ROCKS AND LOGS" CONCENTRATION HAS ACTUALLY INCREASED IN RECENT YEARS.

7. THE GOC IS TRYING SEVERAL AVENUES TO ALTER THE COM-  
POSITION OF ITS TRADE WITH JAPAN. AT THE OFFICIAL LEVEL,  
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THE CANADA/JAPAN JOINT ECONOMIC COMMITTEE HAS EXPLORED, IN GENERAL TERMS, POSSIBLE MECHANISMS OF INCREASING CANADIAN MANUFACTURED EXPORTS TO JAPAN. THE PRIVATE SECTOR, AT GOC URGING, HAS ALSO BEEN ACTIVE. THE NEWLY CREATED CANADA/JAPAN BUSINESS COOPERATION COUNCIL, WHICH INCLUDES AN IMPRESSIVE LIST OF TOP CANADIAN EXECUTIVES, MET WITH JAPANESE COUNTERPARTS IN TOKYO LAST MAY. WHILE THE MEETING ACHIEVED NO CONCRETE RESULTS, GOC OFFICIALS SEE THE COUNCIL AS AN EFFECTIVE WAY OF GETTING JAPANESE TO CONFRONT CANADIAN TRADE CONCERNS. OF COURSE, A PRIME CANADIAN OBJECTIVE IN THE MTN IS TO ACHIEVE IMPROVED ACCESS TO THE JAPANESE MARKET FOR CANADIAN MANUFACTURED EXPORTS.

8. INVESTMENT: NET BOOK VALUE OF JAPANESE DIRECT INVESTMENT IN CANADA IS ABOUT C\$250 MILLION; THE GOC WOULD LIKE MORE. IT IS CONCENTRATED MOSTLY IN MANUFACTURING (PULP AND PAPER PROCESSING) AND MINING/SMELTING. JAPAN WILL PARTICIPATE WITH IMPERIAL OIL AND PETROCAN IN DEVELOPMENT OF ATHABASCA TAR SANDS IN RETURN FOR FUTURE OIL SUPPLY GUARANTEES. GENERALLY, HOWEVER, JAPANESE HAVE MADE IT CLEAR TO GOC THAT THE HIGH COST OF PRODUCTION IN CANADA MILITATES AGAINST INCREASED DIRECT INVESTMENT FLOWS. GOC OFFICIALS TOLD US THAT JAPANESE DO NOT VIEW CANADA'S FOREIGN INVESTMENT REVIEW AGENCY (FIRA) AS A FACTOR DISCOURAGING JAPANESE INVESTMENT IN CANADA, ALTHOUGH JAPANESE HAVE REQUESTED CLARIFICATION OF FIRA'S CRITERIA AND ADMINISTRATIVE PROCEDURES. CANADIAN DIRECT INVESTMENT IN JAPAN IS ABOUT C\$75 MILLION AND IS NOT CONCENTRATED IN ANY PARTICULAR SECTOR.

9. NUCLEAR: IF JAPAN VIEWS CANADA MERELY AS "ROCKS AND LOGS," MANY OF THE ROCKS IN QUESTION MUST CONTAIN URANIUM. FOR SOME YEARS JAPAN HAS LOOKED TO CANADA AS THE PRINCIPAL  
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SUPPLIER OF URANIUM FOR JAPAN'S NUCLEAR POWER PLANTS (JAPAN HAS SOME 15 POWER PLANTS IN OPERATION). THE NORMAL PATTERN IS FOR JAPAN TO BUY THE NATURAL URANIUM FROM CANADA, HAVE IT ENRICHED IN URANIUM-235 CONTENT IN THE

U.S., AND THEN SHIPPED TO JAPAN FOR USE.

10. UNDER THE 1974 AND 1976 SAFEGUARDS POLICY REVISIONS OF THE GOC, IT WAS NECESSARY TO RENEGOTIATE A NEW BILATERAL AGREEMENT WITH JAPAN TO STRENGTHEN CONTROLS OVER GOC-SUPPLIED URANIUM. SINCE JAPAN DID NOT AGREE WITH SOME OF THE NEW CRITERIA, CANADA CUT OFF THE URANIUM SUPPLY TO JAPAN IN 1977. AFTER MONTHS OF TOUGH NEGOTIATIONS, THESE PROBLEMS WERE RESOLVED IN JANUARY 1978 AND SHIPMENTS OF URANIUM HAVE RESUMED. THE NEW AGREEMENT HAS BEEN INITIALED BY BOTH SIDES AND IS AWAITING DIET AND PARLIAMENT APPROVAL.

11. JAPAN IS PARTICIPATING IN CERTAIN URANIUM EXPLORATION PROJECTS IN CANADA AND HOLDS SHARES OF 33 O 100 PERCENT IN THESE ENDEAVORS. HOWEVER, THEY ARE NOT INVOLVED IN ANY ACTUAL MINING OPERATIONS. IF ANY OF THE EXPLORATION WORK LEADS TO THE DEVELOPMENT OF MINES, THE JAPANESE COMPANIES WOULD BE LIMITED TO LESS THAN 50 PERCENT OWNERSHIP UNDER THE NEW CANADIAN GUIDELINES. A JAPANESE BANKING FIRM HAS A 5-10 PERCENT FINANCIAL INTEREST IN BNCO (BRITISH NEWFOUNDLAND CORPORATION) WHICH HAS URANIUM PROPERTY HOLDINGS IN SASKATCHEWAN, BUT THESE HAVE NOT YET BEEN DEVELOPED.

12. THE GOJ ALSO HAS EXPRESSED INTEREST IN ACQUIRING THE HEAVY-WATER, NATURAL URANIUM REACTORS OF THE CANADIAN "CANDU" TYPE AND HAVE ENGAGED IN A FEASIBILITY STUDY WHICH HAS BEEN IN PROGRESS FOR ABOUT THREE YEARS. ONE QUESTION TO BE RESOLVED IS THE EARTHQUAKE RESISTANCE OF CANDU

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ALL CANADIAN CONSULATES (BY POUCH)

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REACTORS. ENDERS

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## Message Attributes

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